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**CUSTOMER SUCCESS: MANAGING CUSTOMER RELATIONSHIPS IN  
SOFTWARE-AS-A-SERVICE FIRMS**

CAROLIN ANDERSON (4106)

A Project carried out on the Master in Management Program, under the supervision of:

Alexandre Dias da Cunha

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## **Abstract**

The Software-as-a-Service (SaaS) business model has not only changed the way software is delivered and licensed, but also the nature of customer relationships: Nowadays, customers hold the power as they can easily terminate the SaaS subscription. As a result, the term customer success has emerged, which is relationship-focused client management ensuring that customers achieve their desired outcomes and renew their subscriptions. This thesis aims to understand how customer success is applied in practice and which factors impact a SaaS vendor's approach to customer success. It further derives best practices for other companies seeking to implement customer success in their organizations.

## **Key Words**

Software-as-a-Service

Customer Success

Customer Retention

Customer Value

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# 1 Introduction

In recent years, changing markets and new technologies have forced traditional business models in any industry to evolve or even transform (Teece 2010). The software industry is a great example of how cloud computing technology has fundamentally changed the traditional software delivery model, which required customers to buy, install and maintain software systems by themselves. Nowadays, software vendors offer a bundle of software applications, IT infrastructure as well as all necessary support services on a subscription basis (Ma 2007). This business model is referred to as “Software-as-a-Service” (SaaS) and is increasingly adopted: A study by Gartner predicts that by 2020, all new entrants and 80% of existing vendors will offer SaaS solutions, regardless of where the software resides (Petty 2018).

However, since the SaaS business model requires a continuous relationship between the SaaS provider and its customers (Dempsey and Kelliher 2018), healthy customer relationships are more important than ever for software companies. As a result, the term *customer success* emerged, which is a relationship-focused customer management ensuring that users achieve their desired outcomes when using a SaaS product (Gainsight). Leading software companies started creating the role of the customer success manager – according to LinkedIn one of the most promising jobs in 2018 (Bowley 2018).

Personally, I firstly became aware of the topic of customer success when doing a summer internship in the customer success department at Celonis, a German software company. When I told my family and friends about my job, the typical initial reaction was: “What is customer success and what do you there?” This public unknowingness motivated me to gain more insights into this nascent field of business and to write my master thesis about customer success. The thesis will start by shortly outlining the theoretical background of the SaaS industry and customer relationship management in general. Afterwards, it will use expert interviews to understand how different SaaS vendors implement customer success in practice. Based on that,

the thesis will identify factors impacting SaaS vendors' approaches towards customer success and lastly derive best practices for other companies seeking to implement customer success in their organizations.

## **2 Theoretical Background**

### **2.1 Cloud Computing and the Software-as-a-Service Business Model**

Cloud computing refers to the delivery of hosted services over the Internet (Armbrust et al. 2010) and has transformed the IT industry in recent years. Based on this technology, three distinct service models have emerged: Infrastructure-as-a-Service (IaaS), Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS). While IaaS refers to hardware-related services such as servers, storage and database management, a PaaS offering consists of software and product development tools. SaaS, the service model this thesis will focus on, refers to prebuilt end-user applications, ranging from HR management software to enterprise resource planning tools (Mahmood 2011).

The way software is delivered makes up the key difference between the SaaS business model and the traditional model, referred to as on-premises software. While on-premises software is installed and runs on computers on the premises of the customer using the software, SaaS applications are hosted by the SaaS vendor and are accessible from various client devices through a web browser (Mell and Grance 2011). This new SaaS delivery model provides several advantages to customers explaining its rapid growth: As the underlying cloud infrastructure is remotely hosted and managed by SaaS vendors, customers do not need to worry about common concerns of IT, such as storage, operating systems, servers, networks or single application capabilities. As a result, customers face lower IT infrastructure cost and increased operational flexibility. Furthermore, since SaaS applications are no longer installed locally on a user's

desktop computer, they can be easily upgraded to the latest version, thereby providing the customer immediate access to new features and innovations (Bhardwaj, Jain, and Jain 2010).

Besides the new delivery model of SaaS, the software payment model has changed as well: In contrast to the classic software license model in which the customer paid the software upfront, software is now licensed on a subscription, rental basis. Customers pay an annual or monthly fee, often dependent on how many users use the software. It is obvious that this new payment model is attractive for customers as it removes the large front-loaded costs associated with the old license model (Bhardwaj, Jain, and Jain 2010). For SaaS providers, too, the subscription model is advantageous as it provides a recurring stream of revenue. This, in turn, gives certainty and predictability to the SaaS business, delighting potential investors (Dempsey and Kelliher 2018).

## **2.2 Subscription Renewal as a Main Challenge in SaaS Firms**

However, due to the new form of software licensing, the customer is no longer contracted to the provider in perpetuity but can cancel the subscription every licensing period. In addition, customers don't have a high initial investment and can choose between a rising number of SaaS offerings. As a result, the SaaS relationship is characterized by relatively low switching costs so that customers can easily “press the eject button and churn to another software vendor” (Benlian, Koufaris, and Hess 2011). Consequently, software providers have become dependent on customers' continuous subscription renewal as their ability to recoup the high initial customer acquisition costs from the upfront license sales has disappeared due to the SaaS licensing model (Dempsey and Kelliher 2018). Given the fact that it takes twelve months on average for a SaaS company to break-even with the acquisition expenses for every single customer, it is obvious that customer churn, defined as the loss of customers at renewal point, has become a significant risk for the economic performance of SaaS companies (Ge et al. 2017). Dempsey and Kelliher (2018) introduce the “Subscription Law of Churn”, which states that a

SaaS company will not grow or even survive if the subscription revenue inflow is not greater than, or equal to, the lost revenue due to customer churn. Thus, one of the main challenges implied by the SaaS business model is to ensure the subscription renewal as it is crucial for the survival and success of the SaaS provider (Dempsey and Kelliher 2018).

To cope with those changes, strategic SaaS providers have begun to increasingly focus on customer relationships as a means for ensuring recurring revenue streams (Dempsey and Kelliher 2018). Therefore, the thesis will examine the subject of customer relationship management as a next step.

### **2.3 Customer Relationship Management**

In the era of digitalization, companies have a greater ability to build, nourish and maintain long-term customer relationships than ever before (Winer 2001). This is particularly true for SaaS companies as cloud technology allows them to “respond directly to customer requests on a virtual platform” and to provide “a highly interactive, customized experience” (Dempsey and Kelliher 2018). In the last two decades, CRM has evolved from a tactical marketing tool to a strategic, customer-centric business philosophy: CRM is applied at the company-wide level and strives for a long-term competitive advantage by developing appropriate relationships with customers (Kumar and Reinartz 2018). Kumar and Reinartz (2018) define strategic CRM as follows:

*“CRM is the strategic process of selecting customers that a firm can most profitably serve and shaping interactions between a company and these customers. The ultimate goal is to optimize the current and future value of customers for the company.”*

CRM is deployed along all three stages of the customer lifecycle: customer acquisition, customer retention and customer development. While customer acquisition aims at obtaining new customers, customer retention strives for maintaining existing customers. Customer

development refers to growing the value of retained customers through cross- or upselling (Buttle 2009). The customer lifecycle implies that each customer has a value over his or her stay with a company (Kamakura et al. 2005) and CRM activities aim to increase the length of the customer lifecycle, thereby maximizing the lifetime value of a customer (Jain and Singh 2002). Given the churn problem of the SaaS industry stated above, the thesis will focus especially on customer retention. In the following the underlying theoretical constructs of customer retention are depicted.

### **2.3.1 Customer Retention Strategies**

Considering the fact that a 1% enhancement in retention might increase firm value by 5% (Kamakura et al. 2005) it becomes clear that customer retention is an important goal of CRM. However, the fundamental purpose of CRM activities focused on customer retention is to assure that the company sustains relationships with value-adding customers – not all customers are worth to be maintained (Buttle 2009). In order to maintain these customers, CRM literature differentiates between negative and positive retention strategies.

While negative retention strategies lock customers in by including penalty clauses in the contract and thereby increasing switching costs, positive retention strategies reward customers for staying in a relationship. An example of a positive retention strategy is creating customer delight, which means that customer expectations are exceeded, and the company has gone beyond what would normally satisfy customers. Adding customer-perceived value is another positive retention strategy, which can be achieved by means of loyalty schemes, sales promotions or customer clubs. Further, creating customer engagement, thus building customers' emotional or rational commitment to the company, is also classified as a positive retention strategy (Buttle 2009).



### 2.3.2 Customer Value, Satisfaction and Loyalty

The concepts of customer value, satisfaction and loyalty have been subject of considerable research and play an important role when it comes to positive retention strategies. The satisfaction-loyalty-profit chain illustrates that customer value leads to customer satisfaction and loyalty, which in turn is the basis for company profits (see appendix 1). In other words, the satisfaction-loyalty-profit chain demonstrates how value *for* a customer is turned into value *from* a customer, i.e. into company profits (Kumar and Reinartz 2018). Given this concept, it becomes clear that companies need to focus on creating customer value to increase profit over the long-term (Trasorras, Weinstein, and Abratt 2009). Since value is highly subjective and perceived differently by every single customer, the concept of perceived value has gained much attention in literature. Perceived value is defined as the trade-off between the customer's perceived benefits and perceived costs of an offering (Buttle 2009). But how can companies enhance this perceived value? Beside the above-named means of loyalty schemes, sales promotions or customer clubs, research has found several other ways to do so. The two most important ones were service quality and trust.

Firstly, **service quality** was found to be an important driver of customer value and was studied by many researchers. However, the conceptualization and measurement of service quality vary from one research model to another and depend on the industry (Chumpitaz Caceres and Paparoidamis 2007). Benlian et al. (2011) studied the linkages between customer service quality and customer retention in SaaS firms and developed "SaaS-Qual". The SaaS-Qual evaluates customer service quality based on the following factors: rapport, responsiveness, reliability, flexibility, features and security (see appendix 2). Those factors were all found to have a significant impact on customer perceived value and consequently on customer satisfaction and loyalty. Freitas and Freitas Neto (2017) decomposed SaaS service quality into

the six factors of customer service, customer assistance, reliability, business processes, accessibility and information about the use of the SaaS application.

Secondly, several research models consider **trust** as the mediating variable between service quality and customer satisfaction. In the SaaS context, Chou and Chiang (2013) differentiated between competence-based trust, the customers' trust in the SaaS vendor's ability, and openness-based trust, the customers' trust in the SaaS vendor's goodwill. It was found that customers' satisfaction is influenced by both competence-based and openness-based trust, while in turn both forms of trust depend on service quality. Further, Yang and Chou (2015) highlight the importance of service quality for SaaS vendors, "from which they can earn trust from their customers, leading to SaaS success".

### **2.3.3 Customer Engagement Value**

The value that firms extract from customers, as illustrated by the satisfaction-loyalty-profit chain, has usually been referred to as customer lifetime value (CLV). However, customer satisfaction and loyalty are not the only means a company needs to aim for in order to reduce churn and thus increase profits. They can also derive value from active and engaged customers in other more indirect ways (Kumar and Reinartz 2018). Engaged customers have an emotional attachment with a firm and add value in the form of purchases, referrals, influence and feedback (Palmatier, Kumar, and Harmeling 2018). Kumar et al. (2010) introduced the concept of customer engagement value, which is comprised of four core dimensions:

1. **Customer Lifetime Value (CLV):** CLV is one of the most widely applied measures of customer value as it refers to profitability of individual customers – i.e. revenues minus costs. The underlying idea is that not only single or past purchase events are considered for the calculation of CLV, but the total financial contribution of transactions of a customer over his or her lifetime with a company, thereby including future purchases. CLV serves as

a metric for companies to allocate marketing resources as marketing efforts are best targeted at the most profitable customers (Kumar et al. 2010).

2. Customer Influencer Value (CIV): CIV represents another form of customer value by incorporating word of mouth (WOM), thus “customers sharing information and knowledge, assisting and generally interacting with existing or potential customers”. It is important to note that CIV stems from the customer’s intrinsic motivation and that it can turn negative – in case the WOM generated by the customer in the network discourages others in the network to become customers or buy additional products. Companies can enforce high CIV by designing systems that allow users to interact such as online communities and forums. As a result of high CIV, companies will profit from increased conversion rates of prospects, extended usage and, hence, a lengthened customer life cycle as well as higher revenues from cross- and up-selling and lower costs through decreased return rates (Kumar and Reinartz 2018).
3. Customer Referral Value (CRV): CRV is insofar comparable to CIV as it comprises the value a customer generates by attracting new customers. However, an important difference is that CRV does not stem from the customer’s intrinsic motivation, but the referral is incentivized by the company. CRV can lead to reduced acquisition costs for a company and future revenues from its increased customer base (Kumar and Reinartz 2018).
4. Customer Knowledge Value (CKV): CKV refers the value that a customer represents as an information provider to the company. By leveraging on customer feedback, companies can benefit from ideas for innovations and product or service improvements. High CKV might not only lead to a more attractive product and service offering but might also save costs due to improved process efficiencies (Kumar et al. 2010).

Strategic CRM bears this concept of customer engagement value in mind and seeks to drive all four dimensions in order to maximize the firm value (Kumar and Reinartz 2018).

## **2.4 Customer Success**

In the software industry, the term customer success (CS) has evolved, which is closely tied to CRM (Smilansky 2016). One will find various explanations of customer success management (CSM) when searching the World Wide Web. It usually refers to the activities of SaaS providers aimed at maximizing customers' perceived value. It is argued that successful customers, i.e. those who achieve their desired goals from the software usage, will probably stay with the SaaS vendor. In turn, the SaaS company's revenue streams are secured and potential cross- or upsell opportunities may even lead to further growth of the company. A study by McKinsey revealed that the SaaS providers with top-quartile revenues achieved their outstanding performance by investing more in customer success initiatives than their competitors. Further, the study's results highlight the positive impact of customer success management on churn reduction as well as on revenue growth acceleration in SaaS firms (Miller, Vonwiller, and Weed 2016).

## **3 Research Questions and Methodology**

Despite the proven impact of customer success, academic research hasn't studied yet how it is performed in practice, which factors influence different approaches to customer success and how best practices look like. The empirical questions the paper at hand is dealing with are therefore the following:

1. How is customer success applied in practice?
2. Which factors influence a SaaS company's approach to customer success management?
3. What are best practices and challenges companies face when conducting customer success management and what does this imply for other companies?

In order to answer these questions, a qualitative research method was chosen, and semi-structured interviews were conducted. The choice of the interviewees was based on the following criteria to ensure the relevance for the thesis' subject of interest: Firstly, the interviewee must have been working in the area of customer success or a related department for more than a year. Secondly, the interviewee must have been working at a company that has a cloud-based service offering and operates in the B2B market. As a result, eight interviews with customer success managers from six different firms were conducted – all of them via telephone with an average duration of 35 minutes and the interview language being either English or German (see appendix 3). During the interviews predetermined topics and questions were used (see appendix 4). This enabled the interviewer to switch the focus and ask questions in between, while still guiding the interview towards the appropriate direction. Afterwards, the interviews were transcribed to ensure that all relevant information is considered for the qualitative analysis.

To understand and compare the different approaches to customer success management, special interest was put in the following three dimensions: Organizational Structure, activities and timing of customer success management. Based on these dimensions, the next part of the thesis will examine how customer success management is practiced by the six SaaS companies, thereby answering the first research question of this thesis.

## 4 Findings

Before the empirical findings are outlined, the six companies are shortly presented to understand their products and backgrounds.

### 4.1 Company Overview

**Celonis**, founded in 2011 and based in Munich and New York, is the global market leader of process mining technology. Its innovative software uses the digital traces within organization's IT systems to visually reconstruct any business processes in real-time.

**Freshworks** offers a range of customer support and sales SaaS products which are designed to work closely together. This allows businesses to better connect and communicate with their customers and improves co-workers' collaboration. The company, founded in 2010 and headquartered in California, has global offices in India, UK, Australia and Germany.

**Funnel** was founded in 2014 in Stockholm and offers a SaaS that supports marketers in gathering and mapping advertising performance data. This allows businesses to analyze the effectiveness of their marketing activities across all channels.

**Personio** offers a SaaS solution for mid-size businesses combining the tremendous number of HR support functions in one single tool. This allows companies to manage documents, attendance data, absences and salaries coherently. The company was founded in 2015 in Munich, Germany.

**Qlik**, founded 1993 in Sweden and now based in the US, provides software for business intelligence and data visualization. The company has sold perpetual software in the past and is currently transitioning to SaaS-based solutions.

**SAP**, founded 1974 in Germany, is a multinational software corporation that provides enterprise software to manage business operations and customer relations. Since 2012 it also offers cloud-based products and only this year, the company has announced that its cloud revenues will overtake its licenses revenues for the first time.

## **4.2 Organizational Structure of Customer Success**

Customer success teams are differently integrated in the organizational structures of the interviewed SaaS vendors. While the customer success team at Funnel is a subfunction of the customer support department, it is an independent function at Celonis, Freshworks and SAP. At Personio and Qlik, customer success is an umbrella term that aligns different teams such as technical implementation, customer education and support. Appendix 5 provides an overview of these different organizational structures of customer success.

## **4.3 Activities & Timing of Customer Success**

In the following, the CS activities are presented along the different stages of the customer lifecycle that was introduced in section 2.3. This approach does not only provide a structural review of the various CS activities performed by the different SaaS vendors, but also allows the reader to understand the chronological order of these activities in practice. A visualization of the activities along the customer lifecycle can be found in appendix 6.

### **4.3.1 Customer Acquisition Stage**

The involvement of customer success managers in the customer acquisition stage is very low. Almost all interviewees agree that customer success activities only come into play as soon as the contract between the customer and the SaaS vendor is signed and the implementation stage has started. However, SAP states that customer success managers should be involved in the contract closing since it is crucial to manage customer expectations at that point in time.

### **4.3.2 Customer Retention Stage**

Given the churn problem of the SaaS industry described in section 2.2, it is not surprising that customer success activities are mainly related to customer retention. Based on the interviews, three areas were identified that all SaaS vendors focus on during this stage. In the following, the related customer success activities are presented.

## Stimulating Product Adoption

In order to ensure the subscription renewal, all interviewees highlight the importance of the customer's product adoption, which refers to how much a product is used by the customer. As Nicolas from SAP states: *"Renewal can only be achieved if we have adoption."* Jonas from Personio considers adoption even as an indicator of customer success: *"I would say our customers are successful if they use our product to its full depth and breath."* However, achieving a high rate of product adoption seems to be more difficult for some SaaS vendors than for others: *"Adoption is the biggest problem from our perspective. [...] Often the CIO signs the deal and the employees who are supposed to use the product don't even know what it is about"* (Nicolas, SAP). Melissa from Qlik shares this opinion: *"Adoption is the biggest challenge because the tool is not super easy to learn. Once people know the tool, they love it, it's just that adoption is the hardest part."* In contrast, Jonas from Personio states: *"Achieving high adoption is not a challenge for us. Every employee of our customers has access to our software as they use it e.g. for applying for leave."* Niklas from Freshworks has a similar opinion: *"Adoption is rather simple to achieve. All of our products were developed with aim of an easily understandable user interface, which facilitates adoption."*

In order to stimulate adoption, the interviewed SaaS vendors apply different methods: Melissa from Qlik underlines that it is crucial to reduce the **time to first value**, i.e. the time it takes for people to see value with Qlik: *"That is why we have churn, because people have shelf ware and aren't able to get successful with Qlik"*. To shorten this time to value, Qlik is currently streamlining its onboarding process, i.e. the period after a customer signed-up for the service: *"Right now, when you go on Qlik.com, it's really fragmented, you must go to different places and contact different persons to get started, you just don't have a central way to go. The whole experience needs to get streamlined and that will accelerate the customer's time to value."* Besides improving its digital experience, the company is undertaking a lot of efforts to better



educate customers and *“get them over that hump so they can be really successful with the tool.”*

To achieve that, Qlik especially relies on scalable formats such as webinars, a newly developed online community, or an on-demand learning platform.

Similarly, SAP focuses on the **customer onboarding** to demonstrate value to customers and thereby facilitate product adoption. However, the company primarily focuses on on-site workshops: *“During onboarding workshops we develop detailed engagement plans with our customers. We ask our customers where they want to stand in two years from now, set goals, and figure out where support from our site is needed and which trainings would make sense for them.”* As the SAP product is very complex and needs to be actively shaped by the customer, the time it takes for customers to get value out of it varies a lot. *“Every customer has a different starting point, which requires individual engagement plans”* (Nicolas, SAP).

Alessandro from Celonis underlines the importance of **sensemaking initiatives** as part of customer onboarding in order to trigger adoption: *“Since Celonis is a new product at the forefront of technology, people don’t know what they are getting into and why they should use it. As a customer success manager, you have to explain this to the people.”* In order to create company-wide awareness of the product and convince as many people as possible of its value, Celonis performs internal roadshows and hackathons at the customer site. Also, “Value Creation Workshops” are offered that empower customers to generate value by using the product. If this sense-making is done well, *“adoption will come automatically, because customers will want to use Celonis.”* Further, the interviewee highlighted that Celonis is a strategic product with a huge transformational impact, implying that customers only get the full value of it if they use it at scale and change their organizational processes and employees’ skills. In order to support their customers in setting-up their organizations and making them ready for the technology, customer success managers at Celonis hold “Organizational Fit Workshops”. These workshops help customers defining the organizational approach that best fits their

company to make the most out of their transformation journey with Celonis. However, even though the long-term value potential is high due to the product's transformative impact, the immediate value generation for customers is way lower since it takes time to transform an organization. *"We had churn because of that: Customers got a technology that they found super cool, and then they realized that they have to set up an organization for which they neither have the budget nor the right people. It took them too much to adopt even though they loved the product"* (Alessandro, Celonis).

### **Ongoing Customer Engagement**

After customers started adopting the product, customer success management activities continue in order to stay in touch with the customer. Niklas from Freshworks draws the following comparison: *"Imagine you are the customer and your dedicated success manager calls you only right before the renewal point and asks if you're doing okay. Would you take this effort seriously?"*

Closely monitoring customers' development during the subscription period and keeping them engaged is a central task in customer success management. Customer success managers at Qlik continuously monitor whether its customers achieve their set goals by doing quarterly business reviews. They track their progress against those goals and report it back to the business. Also, customer success managers at SAP and Freshworks stay in the loop of the customer's health by regularly conducting calls and visiting customers at least once per quarter. These close interactions allow customer success managers to understand if customers are struggling with the product and identify customers that have a propensity to churn. As Niklas from Freshworks states: *"We are so close to our customers that we know what's going on. We also notice trigger events for churn, e.g. when a customer is taken over by another firm or when a key decision maker who used to support our software leaves the company"*.

However, most of the interviewees differentiate between **high- or low-touch** customer success management approaches, indicating either a high or low level of personal interactions with customers during the subscription period. As Jonas from Personio states: *“Choosing a high- or low-touch approach for customer success really depends on your business model: How many customers do you serve? How much revenue does a customer generate?”* Personio applies a mix of both approaches as besides high-selling customers they have *“many small customers generating only 100-400€ per month”*. Consequently, it doesn’t pay off for the company to staff a dedicated customer success manager on all these small accounts. Instead they developed a low-touch customer success management approach with the aim of creating much consumable content for customers as well as building and automating processes. According to Jonas it is important that *“these solutions still feel very valuable for customers”*. Qlik also differentiates between *“high-end strategic accounts, which are in the hands of our customer success managers, and low-touch accounts that receive a more digital experience”* (Brittini, Qlik).

### **Identify At-Risk Customers Using Data Analytics**

In order to identify at-risk customers, data analytics plays an increasingly important role in customer success management. Qlik is currently acquiring customer data and building telemetry in its products in order to gather the logfiles and adoption metrics from its customers. As Brittini (Qlik) states: *“We really need to start to understand where people fall down, where people are successful and what types of users are accessing our products and resources when and why.”* For this purpose, Qlik leverages the different assets that provide customer touchpoints such as its knowledge base, community site, or support portal in order to pull together all historic activities that have happened with a specific customer. Afterwards they look into this data *“through the eyes of one dashboard, which tells us what our customers are doing, how many times they are emailed by Qlik, how their behavior with webinars and live event looks like, how many times they approach their customer success managers and so on.”*

In order to better evaluate this information, the company currently develops a “health scorecard”, which determines the health, i.e. the propensity to churn for a given customer based on the acquired data. Besides the customer activity and behavior, the health scorecard also incorporates data from third parties, financial data and data on customer advocacy. Brittini (Qlik) highlights that it is especially important to look at that data from all the different parts of the business in order to make decisions for the product and the entire customer experience.

Qlik is not the only SaaS vendor focusing on data and customer health scores. Freshworks, too, pursues different data-driven initiatives as part of its customer success management. In order to monitor its small customers, the company applies a churn prediction model based on artificial intelligence. Similar as in sales, where specific patterns were identified to predict the transformation of leads into customers, this model identifies patterns that predict customer churn. Those patterns might be a low usage rate of available licenses, a low number of monthly active users, a high number of tickets in the support portal etc.

Personio also introduced a customer health score which is determined using a software tool called Natero. This tool allows to create and configure customer health scores by choosing relevant metrics from different sources. Based on that, different work streams can be established. For example, if the product usage of a specific customer drops by 30% from one month to another, customer success managers at Personio get a notification and can approach this customer in the next step. According to Jonas (Personio) this tool *“is a means to prioritize as customer success managers can focus on the customers with the worst health scores”*.

#### **4.3.3 Customer Development Stage**

Looking at the development stage, the activities of CS managers vary a lot from one SaaS vendor to another. According to Niklas from Freshworks a customer success manager’s responsibility is to draw the customer’s interest and identify expansion opportunities. Even though this goes in the direction of sales, Niklas highlights that it is *“something completely*

*different requiring other qualities*". As soon as a cross- or upsell is imminent, customer success managers at Freshworks withdraw and hand the deal over to sales managers. Niklas underlines that a customer success manager becomes the customer's "trusted advisor": *"A CSM is not bent on selling more but is on the customers' side. This also means that he might show a customer those features which are not necessary in its specific case, thereby saving money for the customer. Even though this approach might not be beneficial for our bottom line in the first place, it is the basis for a sustainable relationship."* At Celonis, too, customer success management is clearly separated from sales since customer success managers have no upsell opportunity at all.

In contrast to these SaaS vendors that clearly separate CSM from sales, Personio integrates cross- an upselling into the customer success managers' range of tasks. The company's CSM team has dedicated "Growth Managers" who are not only responsible for the renewal management but also for encouraging customers to purchase the premium version of its software or complementary features. Nicolas from SAP has a similar view on CSM and describes it as new sales approach. *"Customer success managers want to have their customers happy so that they renew the subscription and continue paying – at the end of the day, that's sales, isn't it?"*. According to Nicolas, there are two major personality types when it comes to salespeople – hunters and farmers. While hunters aim at winning new leads, farmers care about existing customers and grow them into the highest-yielding accounts possible. At SAP, customer success managers are considered being farmers, which is *"the best metaphor that exists for customer success management"* (Nicolas).

Besides the different approaches towards up- and cross-selling, creating customer advocacy is a main task of customer success managers in the development lifecycle stage. Converting successful customers to event speakers, publishing their success stories, and managing customer references was named as a key responsibility by all interviewees.

## **5 Analysis**

The results outlined in section 4 demonstrate that there are similarities and differences between the approaches to customer success applied by the different SaaS vendors. The thesis will now focus on the second and third research question. Section 5.1 will examine the factors impacting different approaches to customer success, and section 5.2 will outline best practices that might help other SaaS vendors implementing customer success in their organizations.

### **5.1 Factors Impacting Approaches to Customer Success**

Based on the interview results outlined in section 4.3, four key factors were identified impacting SaaS vendors' customer success practices.

#### **Factor #1: The SaaS Product Complexity and Novelty**

As learned in section 2, customer perceived value is the foundation of customer satisfaction and retention. Therefore, SaaS vendors focus on value creation for customers to trigger product adoption and thereby ensuring the subscription renewal. While creating customer value and thus achieving high levels of product adoption is simple for some SaaS vendors, it represents a challenge for others. Based on the interview results, this disparity can be explained by the complexity and novelty of the respective SaaS solution and its associated value generation for customers. Personio and Freshworks both serve established markets by selling easy to use HR and sales software. Customers already know what these products are about and quickly see the value that can be derived from using the solutions. As a result, these SaaS vendors have less difficulties regarding product adoption and their CSM activities do not heavily focus on triggering adoption. In contrast, SAP and Celonis sell highly complex, novel SaaS solutions that even require customers to transform their organizational structures, processes and people. Consequently, customer value generation is way less immediate compared to Personio and Freshworks and calls for extensive customer onboarding, knowledge enablement and

sensemaking initiatives performed by CSM. Thus, an important finding of this thesis is that CSM activities highly depend on the complexity and novelty of the SaaS solution and therefore vary from one SaaS vendor to another.

### **Factor #2: The CLV**

Furthermore, it was found that customer success activities depend on the value a customer provides to the SaaS vendor. In section 2, the CLV was introduced as a metric depicting the lifetime value a customer creates for the SaaS provider. This implies that not all customers have the same economic impact or potential for revenue expansion. Given that, it wouldn't be effective for customer success teams to cover all customers at the same ratio of personal interaction. Therefore, SaaS vendors have segregated their customer base into high- and low-touch customers and have built appropriate customer interaction models. CSM activities are scaled for low-touch customers by applying standardization and technology: Regular touchpoints in the customer lifecycle are automated, questions or help requests are addressed by using self-service technology and education is delivered by providing web-based trainings. In contrast, CSM activities for high-touch customers involve more human capital and face-to-face interactions, such as onsite workshops and quarterly business reviews.

### **Factor #3: The Customer Success Maturity Level**

Since customer success is a nascent role in the software industry, best practices are rare and SaaS vendors have built their customer success approaches over time. Consequently, SaaS vendors have different customer success maturity levels that are reflected in operational processes and technology. For example, the customer success team at Funnel is still in the "firefighting mode" and reactively solves upcoming issues to prevent customer churn. Even though there are some basic processes put in place, many customer touchpoints happen without prescriptive playbooks and are not repeatable. In contrast, the customer success team at Qlik has streamlined its customer experience and developed repeatable processes for various

customer touchpoints. This is also true for Personio and Freshworks that introduced engagement plans and consistently conduct quarterly business reviews and calls with customers. Further, these different CS maturity levels are also reflected in the technology tools that CS teams apply. While Funnel estimates a customer health score manually, other SaaS vendors such as Freshworks, Personio and Qlik have invested in dedicated CSM software leveraging on different data sources and predictive analytics. The customer success maturity level is also reflected in the company's organizational structure: Funnel's customer success team is currently still a subfunction of the customer support team but might become a separate function as the organization matures.

#### **Factor #4: The SaaS Vendor's Conception of CS**

Lastly, even though the rationale behind customer success is the same for different SaaS vendors, there is variance regarding the scope of CS responsibilities. While some vendors understand customer success as a post-sales role that implies creating new sales opportunities, other SaaS providers categorically separate customer success from any post-sale initiative. Based on the interview results, it was not possible to comprehend whether the conception of CS is related to one of the factors listed above or whether it is simply a subjective matter.

## **5.2 Implications for Other SaaS Vendors**

Even though a SaaS vendor's customer success approach depends on the four factors stated above, a set of universal best practices was identified that might help other SaaS vendors to implement customer success within their organizations.

### **Focus on Customer Onboarding**

The interviews with SaaS vendors have shown that customer onboarding plays a significant role in order to ensure product adoption and subscription renewals – even though the related CSM activities might differ from one provider to another. Consequently, SaaS companies need to define what an “onboarded customer” means for them and design appropriate activities to



get customers there. Definitions might vary from “customer is technically enabled to successfully use our software” to “customer has recognized the value potential of our software” to “customer has achieved first success by using our software”. Regardless of the specific definition, customer onboarding requires CS managers to understand customers’ businesses and their desired outcomes. SaaS vendors therefore need to find out what customers expect and at the same time manage these expectations to make sure that SaaS companies can fulfill them. Mutually creating engagement plans with specific success milestones helps customers to generate an initial value out of the SaaS solution and thereby facilitates customer onboarding – the first important step towards the subscription renewal.

### **Establish a Trustful Customer Relationship**

Almost all interviewed CS managers understand themselves as trusted advisors of their customers, “representing the customer’s voice within their company”. Therefore, building trust is crucial for every customer success manager. This approach is supported by academic research as learned in section 2.3.2: Trust is a key driver of customer value, which in turn leads to customer satisfaction and retention. SaaS vendors need to convince customers by their ability and expertise (competence-based trust) as well as to demonstrate that they have honest incentives to solve customers’ problems and to benefit them (openness-based trust). Honesty was highlighted as key success factor of any CS manager by the interviewees: On the one hand, being honest regarding what can be achieved by using the SaaS solution, thus making sure customer expectations are realistic. On the other hand, being honest about how the SaaS solution can be used most efficiently, preventing unnecessary costs for customers. Once customers realize that a CS manager has their best interests at heart and really cares about customers’ success, they will trust SaaS vendors, which is the basis for long-lasting customer relationships.

### **Ensure a Valuable Experience for All Customers**

CS managers differentiate between high- and low-touch customers depending on their CLV. However, the interviewees highlighted that customer success targets the entire customer base, even though the level of personal interaction might vary from one customer to another. Customer success managers need to make sure that a low-touch interaction model doesn't impact customer perceived value: low-touch customers, too, should be able to achieve the desired outcome and get the necessary support whenever needed. Therefore, SaaS vendors need to implement systems and processes that ensure high levels of service quality, a key driver of customer value as learned in section 2.3.2. Vivid online communities, content-rich help pages, regular webinars as well as live chat support systems allow SaaS vendors to serve customers at scale without making them "feel low-touch". Setting these things up requires an initial investment of both financial and human resources, thus a low-touch CS model should never be purely seen as a cost saving measure. However, in the long run, a low-touch interaction model can lead to tremendous cost savings while securing a valuable customer experience.

### **Use Predictive Analytics**

The interview results have shown that CS managers endeavor to be proactive in reaching out to customers. However, regularly contacting every single customer is time-consuming and inefficient – so how shall CS managers prioritize? By means of predictive analytics, CS managers can recognize patterns of what makes customers successful and eventually renew the subscription as well as what makes customers not successful, leading to churn in the end. This allows them to accurately predict customer behavior and focus their efforts on at-risk customers. Using predictive analytics tremendously improves the efficiency and productivity of CS teams by targeting exactly those customers that require the most attention and support. SaaS vendors should therefore invest in predictive analytics skills and tools that enable them to gather and interpret a large number of data points.

## 6 Conclusion and Outlook

Customer success is a nascent field in business designed to tackle the main challenge of SaaS vendors: making customers renew their subscriptions to ensure future revenue streams. This thesis aimed to understand how customer success is applied in practice and which factors impact a SaaS vendor's approach to customer success. In order to answer these questions, customer success managers from six different SaaS companies were interviewed. The different approaches to customer success were compared in terms of organizational structure, activities and timing. Four main factors were found that impact a SaaS vendor's customer success strategy: the SaaS solution, the CLV, the maturity level of the customer success organization as well as the SaaS vendor's conception of customer success. Consequently, customer success is implemented differently by SaaS companies. However, a set of universal best practices were identified that any company should keep in mind when setting up a customer success team.

Beside its relevance in the SaaS industry, customer success is likely to become crucial in other industries as more and more business models will be based on recurring revenues in the future. A good example is the car manufacturer Volvo that recently launched a subscription service as an alternative to owning or leasing a car covering insurance, maintenance and service for a flat monthly fee (Glon 2018). In order to ensure customer's subscription renewal, dedicated customer success managers will attempt to deliver value in every interaction. Customer success concepts such as customer education or customer health scores can be applied by any business or industry that is customer-facing and data-driven – be it B2B or B2C. Once the link between customer's success and the provider's service has been built, the basis for renewal is established. This is perfectly summarized by Nicolas from SAP and universal for any industry: *“If the customer is successful, I am also successful. Customer success is a very honest way of consulting and selling. If we look in our eyes at the end of the subscription period and the customer is happy with the work that was done, then the renewal is a logical consequence.*

## 7 Appendix

### Appendix 1: Satisfaction-Loyalty-Profit Chain and Drivers of Customer Perceived Value



Source: Adapted from (Kumar and Reinartz 2018)

### Appendix 2: Conceptual Definitions of the Six SaaS-Qual Factors

Factor	Conceptual definition
Rapport	Includes all aspects of an SaaS provider's ability to provide knowledgeable, caring, and courteous support (e.g., joint problem solving or aligned working styles) as well as individualized attention (e.g., support tailored to individual needs).
Responsiveness	Consists of all aspects of an SaaS provider's ability to ensure that the availability and performance of the SaaS-delivered application (e.g., through professional disaster recovery planning or load balancing) as well as the responsiveness of support staff (e.g., 24-7 hotline support availability) is guaranteed.
Reliability	Comprises all features of an SaaS vendor's ability to perform the promised services timely, dependably, and accurately (e.g., providing services at the promised time, provision of error-free services).
Flexibility	Covers the degrees of freedom customers have to change contractual (e.g., cancellation period, payment model) or functional/technical (e.g., scalability, interoperability, or modularity of the application) aspects in the relationship with an SaaS vendor.
Features	Refers to the degree the key functionalities (e.g., data extraction, reporting, or configuration features) and design features (e.g., user interface) of an SaaS application meet the business requirements of a customer.
Security	Includes all aspects to ensure that regular (preventive) measures (e.g., regular security audits, usage of encryption, or antivirus technology) are taken to avoid unintentional data breaches or corruptions (e.g., through loss, theft, or intrusions).

Source: (Benlian, Koufaris, and Hess 2011)

### Appendix 3: Overview of Interviewees

Expert	Company	Role	Interview Date	Interview Duration
Alessandro	Celonis	Senior Customer Success Manager	20.11.2018	40 minutes
Niklas	Freshworks	Head of Customer Success Europe	29.11.2018	40 minutes
Robert	Funnel	Customer Success Manager	14.11.2018	30 minutes
Jonas	Personio	Vice President Customer Success	19.11.2018	25 minutes
Louis	Personio	Customer Success Manager	12.11.2018	45 minutes
Brittini	Qlik	Customer Success Director	14.11.2018	40 minutes
Melissa	Qlik	Customer Success Manager	19.11.2018	30 minutes
Nicolas	SAP	Customer Engagement Executive	21.11.2018	45 minutes

Source: Author

### Appendix 4: Interview Guide

#### Definition

- How would you define customer success?
- How does customer success differentiate from customer support?

#### Organizational structure

- How is customer success embedded in your company?

#### Focal Points

- What are the focal points of customer success in your organization?

#### Customer Lifecycle

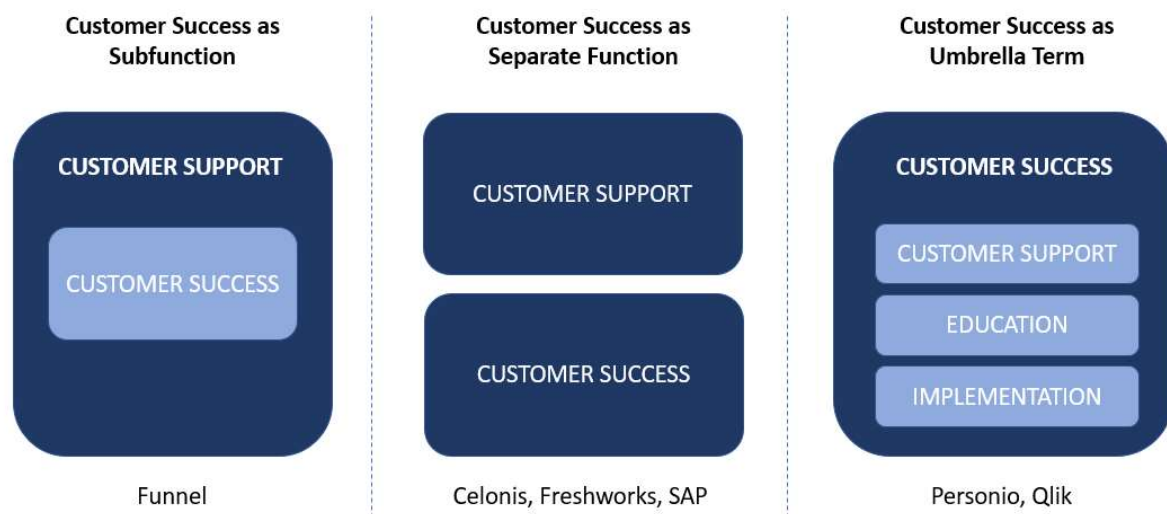
- At which stage of the customer lifecycle does customer success come into play?
- What activities are performed during the customer lifecycle stages:
  - Acquisition
  - Retention
  - Development

#### KPIs/analytics in customer success

- What kind of KPIs do you use to assess customer success?
- Do you use a customer health score? If yes, how is it calculated?
- Do you use predictive analytics?

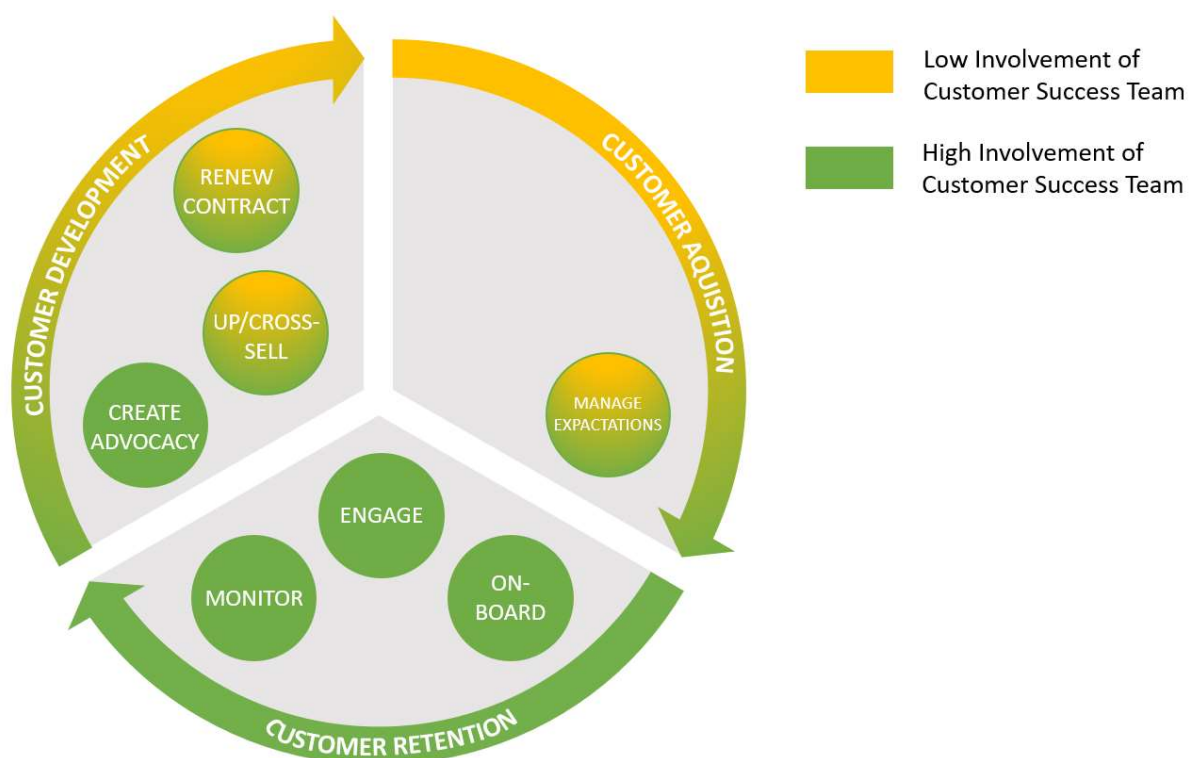
Source: Author

## Appendix 5: Different Organizational Structures of Customer Success



Source: Author based on expert interviews

## Appendix 6: Customer Success Activities Along the Customer Lifecycle



Source: Author based on expert interviews

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